



ACHIM SZEPANSKI 2019-07-26

THE SPECULATIVE CAPITAL (1)

ECONOFICTION DERIVATIVES, FINANCE, FINANCIAL MARKETS, LIPUMA, MARXISM, RITUAL

Here we present in three parts a preliminary report to the book *The Speculative Capital*, which contains the first comprehensive study of a new form of capital that dominates the economies of the 21st century. In this report, we often refer to LiPuma's book *The Social Life of Financial Derivatives: Markets, Risk, and Time*, an important text for understanding the current capital economy.

The structures of the financial field are implemented in the agents' cognitive and generative schemata, which they need to be able to participate in the game of "playing" in the financial field. The real dynamics of the financial economy are based on the relation between the structure of agents' dispositions and the structure of the financial field and the markets themselves, which in turn are the result of a series of competitive determinations.

For LiPuma, there are three prerequisites for studying social issues in finance: an ontological premise, with the very study of the financial crisis showing that the Marxist and neoclassical theories, which both privilege the sphere of production, have themselves fallen into crisis. Connected with the centrality of production is a definite conception of totality, which today is replaced by the circulation and reproduction of capital markets, which relate the objectivity of totality and the performativity of agents to one another.

The second premise is epistemological: the categories lose their dialectic in favor of categories that represent a distributed economic field. The derivatives marked by spreads are relational spaces that allow simultaneous movements in different directions. These movements through time spaces appear in terms of time as the interval or times of evaluation characterized by speed, volatility and utilization. This mobile configuration replaces the usual immobile configurations of points and positions, agents versus structures. If you look at the economy from the perspective of spread or spread, then there is no harsh opposition between production and circulation, material wealth, and financial assets. Investment and speculation, because all concepts are mutually conditional dimensions of capital. This type of dissemination includes a specific implementation of the social, which in turn mobilizes a ritual to turn uncertainty into safety. After all, it is about an inherent understanding of the sciences, insofar as the analysis of the financial markets must be related to the methods and practices of the agents constructing such markets.

The derivative is not a thing held like a book in the hands, rather it is essentially relational, rather, it is a relation of relations. First,

the relative volatility of the derivative relative to the volatility of the underlying must be mentioned in order to identify the derivative. The key to replicating the derivative, in turn, is its size and the speed of volatility. In a way, according to LiPuma, bet on the relation and play a tango with time. In a derivative contract, two contractors “bet” on what will happen to an underlying asset in the future, such as exchange rates or interest rates between dollars and euros. This bet is valid for a specific period of time, which is clearly defined in the contract.

For LiPuma, the derivatives markets are historically determined and at the same time arbitrary means of capital, with which the value is attributed a risk, whereby the derivatives markets somehow separate the circulation from production and simultaneously generate new modes of interdependence and connectivity. This refers above all to the fact that derivatives are not limited by the structures of production and are not dependent on them. Derivatives are *sui generis* speculative capital—a form of capital that manages the fabric of nomadic and opportunistic capital that circulates on its own markets in a self-referential manner. The design of a derivative contract has no need in the first place, it has the intrinsic value of an instrument, linking derivatives as parallax, creating a globally fluid market for capital, synchronizing derivatives, and increasing leverage. The derivative is an instrument whose foresight for the future helps to create the future it foresees. This dynamic has a self-referential and relative dimension: the volatility of the derivative can implement the volatility in the underlying, which in turn increases the spread of the derivative. Without volatility no derivative is conceivable, that is, if derivatives do not circulate, then they are just worthless. In circulation, contingent events based on socio-economic conditions are reduced to, and thus naturalized, contextless risks, that is, discrete, independent, and liquid risks.

The derivative is a determinant form that can relate to all the uncertainties and insecurities in the world, it involves a speculative ethos that is constituted between a culture of calculation and the illegibility of opportunity. There is a specific duality between concretion and abstraction here. Because there are a lot of underlyings, there are hardly any limits to the possibilities of writing derivatives.

For LiPuma, the derivative is also a generic design scheme based on a time-related bet on volatility, on the division and recomposition of capital, and on the blending of variable and incommensurate forms of risk, ultimately resulting in an abstract number turn as a social mediation works. (For a derivative driven economy, ratios such as GDP are meaningless.) Derivatives represent economic totality as an in-determined, disparate aggregation of globally-replicating, abstract-risk contracts. (The size and limitlessness of derivatives has enormous consequences for the organization of national labor markets and the conditions of collective reproduction of the economy. Speculation becomes the privileged ethos when the profits that result from it exceed the profits that result from the application of productive labor. Consider the real estate market, where the profits that relate to the home as a financial investment have long exceeded the value of the house home as a material good or commodity, indeed are increasingly decoupled from the cost of the traditional commodity house.)

Similar to the capital movement, there is the inherent need for derivative markets to constantly invent new exotic or synthetic derivatives in order to identify and capitalize global money flows, that is, to subject it to the logic of leverage. The derivatives are not to be understood as a commodity, but LiPuma designates them as non-commodity goods, they refer to the commodity form, insofar as each derivative is particular and realized in money, but they are invariably social meditations of the circulation of the speculative capital.

The derivative is a time-based bet on volatility for LiPuma. Derivatives monetize the risks for a certain period of time. The now (the beginning of the contract) is a virtual and spaceless moment, but what matters is that the contract has a future-related duration. Market participants are not concerned with whether the value at risk is real or fictitious. And derivative contracts are intrinsically performative in establishing the conditions of their own existence, as the saying of the word “promise” produces the promise to its expiration under certain conditions. The utility value of the derivative is its dynamic replication, or to put it another way Derivatives exist in the interval between the beginning and the expiration date and they continuously create a new now and new wealth by opening and closing the gap between a realized price and a possible future. Derivatives fill a period in which wealth is created as a consequence of volatility, as a dispersion or spread of what they represent as the imaginary center of spreads. The design of the derivatives makes the leveraging of this volatility, where convexity here means that the variation of the price of the underlying and the derivative need not be symmetrical. A variation in the price of the underlying may result in a disproportionate variation in the price of the derivative. A small variation in the price of the underlying may therefore result in a huge increase in the price of the derivative, remembering that in the subprime crisis a small number of defaults resulted in large losses for the CMOs. This is called the “Jensen inequality.” The derivative can not be reduced to an anticipated income stream or a return, because the size and the speed of its volatility determines the amount of the return. The price thus refers to the expected future volatility of the derivative, measured as the degree of variance between the moment of the transaction and its maturity. The derivative price is thus centered around the relation between the expected volatility and the maturity. In the subprime crisis, a small number of defaults resulted in high losses for the CMOs. This is called the “Jensen inequality.” The derivative can not be reduced to an anticipated income stream or a return, because the size and the speed of its volatility determines the amount of the return. The price thus refers to the expected future volatility of the derivative, measured as the degree of variance between the moment of the transaction and its maturity. The derivative price is thus centered around the relation between the expected volatility and the maturity. In the subprime crisis, a small number of defaults resulted in high losses for the CMOs. This is called the “Jensen inequality.” The derivative can not be reduced to an anticipated income stream or a

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Volatility is thus expressed at intervals, that is to say, time is compressed and contracted in the period between the beginning and the end of the derivative, and it should be noted that the speed of circulation is quite different from that of traditional commodities. From the constant film of time, the derivative cuts out and shapes a certain interval of time, an interval that presents the future, which in turn affects the present, or, to put it another way, it is about the interpolation of the future, which is also expansion the present, but also leads to their destabilization. Traders are doomed to anticipate a future they can not know, following the guidelines of financial theory, which tries to determine the future as a probabilistic distribution. This use and this determination of time distinguish the derivative substantially from the classical commodity. The buyers and sellers of a classic commodity can agree on a price because they attribute different usage values to the commodities they trade. While the seller is trying to make a profit, the buyer wants to satisfy his needs. Unlike derivatives, which are not commodities and have no transparent value in the here and now, the only measure that motivates the transaction is the calculation of its future value. The derivative targets a future, it can only be priced out because the market participants accept a bid-spread,

Derivatives differ not only from traditional commodities but also from other forms of capital. Here, the derivative is similar to those instruments that refer to debt or capital forms that can be continuously valued. However, for example, the derivative differs significantly from a bond in a significant manner. Although the derivative is priced on an underlying, it prizes aspects that the derivative itself can not praise, such as the specific risks of the underlying in terms of the risks that affect the market as a whole. And derivatives can create prices that relate to clearing houses' mistakes, to accelerating inflation, or to a decline in profit curves. Derivatives also do not throw off accumulated profits over time like bonds. While the profits accumulate over time, the value of a derivative decreases with time or expiration date.

Furthermore, a dynamic replication between volatility and liquidity for the derivative is necessary. The ability to exploit volatility is necessarily dependent on liquidity on the financial markets. In general, the derivatives follow a difficult path, namely to increase volatility without making it so excessive and uncontrollable that it leads to a loss of liquidity. The collective confidence of market participants in the future liquidity of the market is essential here. Therefore, derivatives inherit the performative power of the ritual in order to set in motion precisely what each individual agent presupposes. But the liquidity in the markets evaporates again and again because they can not remember their past mistakes. There is a spread and difference between risk and uncertainty,

Even hedging includes a speculative moment insofar as it refers to the trajectors of the future volatility of the underlying. The hypostatized correlation in hedging – when y develops upward, then x develops downward – but is understood by the market participants not as a parameter of the model, but as real. The hedge can also mutate into a speculation. It is not about reducing the risks, but they are only hedged to increase the speculative capital, so that the risk counts only quantitatively, as a calculation of a price, which is provided with a number. The risks are separated from the conditions of their realization and this has certain implications: The risk can now be defined in the categories of volatility and measured as the probability of the relative variance of the derivative price. Volatility is itself measured in a logic of production. Derivatives are now capitalizing on the volatility they are actively creating.

The relationship between finance and real economy is for LiPuma a disruptive interdependence. While the real economy relies on avoiding disruption and volatility as far as possible, volatility is the lifeblood of finance, in that it necessarily needs to be capitalized and increased, which often enough serves the real economy, which benefits when financial market volatility is gradual and predictable, while leaps in volatility can in turn advance financial markets if they do not limit liquidity. Derivatives also reconfigure and re-price the values of traditional commodities, not in terms of the intrinsic value of commodities, but in terms of their uncertain future value. And this, in turn, also affects the structures of the labor markets and the capital distributed in production. If a commodity is already sold before it is a worldly thing, then the derivatives infiltrate the circulation into production, just by attributing floating and contingent values to the commodity. Speculation on a commodity driven by the derivative (real estate) means to speculate on the spread between the directionality of prices and the spread that the derivatives markets produce.

Thus, the exchange value of the derivative is by no means a function of abstract work, but rather the expression of a social abstraction (the risk) that is generated in a given time interval. In addition, the value of the derivative is based on information and the conditions codified in the Treaty, not in an abstract work-based commodity, but in the work needed to produce the interconnectivity of capital circulating globally.

For LiPuma, the general problem of financial markets is to generate as much volatility as possible without volatility producing

liquidity drag. Thus, the intrinsic dynamism of markets lies precisely in the need to arbitrage on volatility through financial transactions and to calculate the amount of risk (through leverage) necessary to generate precisely the same volatility that allows arbitrage to work. The tendency towards crisis processes implies that a decline in volatility, which leads to an increase in stability in the production-related markets, may in particular increase the instability on the derivatives markets. An expected decline in volatility reduces the profitability of arbitrage, which, in turn, motivates traders to compensate for the decline in profits by increasing leverage, making it more difficult to manage outstanding positions and small changes in underlyings leading to high changes in derivatives prices. If the derivative is systematically transformative, it is because it is a self-exploiting and expanding form of money capital, that is, speculative capital.

It should be remembered that the expansion of credit creation by private banks is an important resource of speculative capital, which in turn can boost the derivatives markets and fuel the real economy, but not necessarily. In any case, the growth of financial markets reinforces the financialization of money. Derivatives markets must be volatile enough to attract speculative capital, but they need to know how to prevent the elasticity of volatility from becoming dangerous for themselves: they are producing the kind of disease they need to immunize against. The logic of speculative capital is the constant strengthening of the motive to create possibilities for differential monetization, or, let's say, it must create the capitalization of difference. And this logic is unconditionally to be thought of as a mode of circulation that floats the abstract risk in its derivative form. The new circulatory capital regime does not rely on the power of states to emit legal money, it is culturally diffuse and contains a highly abstract force that culminates in a speculative ethos, namely the abstraction of risk, a monetized subjectivity and a reorganization of the relations between production and circulation. While financial circulation can not replace industrial production, it does give it a new shape. The allocation of capital is increasingly dominated by financial and derivative interests. It is not the real economy that drives the financial economy, but, conversely, the financial economy, which structures the real economy. That is, the derivatives organize the flows of capital between different collateral, currencies and cash flows and thus they have necessarily regulatory capacity and thus take over actually state tasks and functions and integrate the policy into the economy. The social, in its contingency that traverses the spacetime of a social formation, remains a significant resource for derivatives markets and for the mosaic of uncertainties that allow the derivatives markets to create a sustainable market. (The social, whether monetary, currency or interest rate, remains the ontological gap between the price and the value of a derivative, as participants must always agree on a derivative price, There is an interplay between the temporality of the calculation and the illegibility of the opportunity, and there are ways in which this correlates with the leverage of the derivative form. The hedge of the derivative transaction is an attempt to arbitrage the relation "calculation and opportunity" by trying to read the future. This arbitrage is now coded as a mathematical probability, but always based on a retrospective interpretation of the markets, while the existential insecurity persists. There are two ways of measuring the movement of a forward-looking derivative: either measuring historical volatility by tracking how the derivative and its price fluctuate in the past, or by reading the implied volatility, assuming an anticipated price, and tracing it back to the present (discounting). Here one then calculates with the Black-Scholes formula the leverage of a given derivative.

The credit, in terms of temporality, has to anticipate the creation of derivatives, which in turn serve as a hedge for loans, but also for the derivatives themselves or for the liquidity of an institution. The symbiotic form between credit and derivatives creates a temporal dynamic that reconfigures the ontology of money for LiPuma, whereby the production of money no longer correlates with the production and circulation of goods and services. For LiPuma, the growth of the dollar, which far exceeds the growth of production, and the fact that the velocity of circulation of money is falling in production, point to a fully circulating capital, often enough largely independent of production.

Speculative capital takes the form of derivatives because they unify various concrete risks in a single instrument, even though they merely mask the uncertainty that appears on the horizon. In this context, market makers design derivatives to liquidate the risks that arise in different concrete situations and to use derivatives as objectification of the abstract risk. This form of monetary circulation differs significantly from credit and fictitious capital. In addition, the financialized risk is separated from its social contexts and relations, ie a given situation is considered risky, the risk must be abstracted from the social, economic and political conditions in order to translate it into an analytical and mathematical space, which is assumed to be independent of the circumstances. Over the past 40 years, generative and classificatory schemes (interest rate risk, credit risk, transaction risk, direct risk, counterparty risk, liquidity risk, etc.) have emerged and, ultimately, any variable that can be identified can become a risk. This nominalization implies that finance sets every type of risk as an ontologically real object. The respective types of risk are translated into an abstract form. The incommensurate and variable forms of risk are transformed into a singular form: abstract risk. direct risks, counter-risks, liquidity risks, etc.), and ultimately any variable that can be identified becomes a risk. This nominalization implies that finance sets every type of risk as an ontologically real object. The respective types of risk are translated into an abstract form. The incommensurate and variable forms of risk are transformed into a singular form: abstract risk. direct risks, counter-risks, liquidity risks, etc.), and ultimately any variable that can be identified becomes a risk. This nominalization implies that finance sets every type of risk as an ontologically real object. The respective types of risk are translated into an abstract form. The incommensurate and variable forms of risk are transformed into a singular form: abstract risk. As noted by the Greek economist John Milios, this is not about two separate forms, but about two inseparable dimensions of the risk involved in the trading of derivatives. Each derivative is qualitative in a particular case, particular in the identification of a particular ensemble of identifiable risks, and it is systemic insofar as abstract risk co-produces the market as mediation. The specific risks are necessary for socially generated volatility to take place while the abstract synthesizes risks so that volatility

pricing is possible at all. With abstract risk, connectivity is first established. By abstracting them from all the socio-economic contexts,

In a given market, a specific risk (fluctuation of currencies) is particular and is generated by a fluid, heterogeneous circularity, but as an abstract risk, it is an individuated dimension of homogeneous and systemic mediation that aims to reproduce the market as a totality. The abstract risk is aimed precisely at what the agents invariably and unconsciously do, namely to imagine the market as a totality so that it remains liquid, through countless iterations of pricing and under circumstances that are constantly changing, especially those, which allow the recalibration of prices. All the relations included in these relations are priced out on the financial markets, they circulate and they are speculated upon. In these processes, economic agents are constantly misjudging the social dimensions of risk, especially as the market appears to them as an objective and formal construction. To summarize here, the abstract risks subsume the concrete risks and act as a mediator for the liquidity that makes the derivatives market possible in the first place. Without the abstract risk, there is no liquidity and no derivatives market. The risk-driven derivative is the new tool that sorts circulation by objectifying the risks (through abstraction and monetization), creating and trading exactly the kind of connectivity capital requires, so that completely anonymous agents and organizations in markets that need it based on risk-based transactions.

It should be noted in this context that shareholder value is an important means of regulating companies, indicating the shift from commodity production to derivative, namely equating goodwill with its market price, resulting in continuous pricing. It is assumed that the market is an objective and non-personal judge of goodwill. By its massive impact on credit, currencies and capital markets, speculative capital infiltrates financing into the real economy and infiltrates the logos of production reproduction. The movement of the stock market value of a company is now the decisive measure, in particular to generate the shareholder value. And this affects the temporal compression of the horizon of investors, whose short-term perspectives now massively influence production, especially as relative divisions occur between the time of allocation of capital and the time of production processes. The period in which a stock is held, usually only from quarter to quarter, is much lower than the cycles of product turnover in industrial production. This is also important inasmuch as financialization has turned homeowners into passive investors who now have to entrust their savings to institutional fund managers. In addition, income from the stock often enough exceeds the profits that result from the sale of products to which they relate. Thus, with the quantity of funds the fund managers manage, their influence and power in the companies increases,

From this point of view, the logic of shareholder value is to enable the abstraction of speculative capital from the industrial body of the company while at the same time radically transforming it, that is, to see in every single aspect of the company a potential from which to extract profits. An army of analysts around the world is searching for hidden sources of recovery day and night, ie aspects of the company that can be monetized in the future, but have not yet been reflected in the file rates. The shareholder value is the logo of the derivative when it relates to the environment of the company. In doing so, the distinction between capital and business is increasingly wiped out as each aspect of the business is geared to monetization, on the transformation of the company as a social organization into a machine for the realization of capital. The company profit is now linked directly to the derivative profit logic of the capital. The logic of shareholder value indicates the logic of the derivative: the directional and quantitative augmentation within a spiraling motion that designs speculative capital itself.

In some ways, the stock price itself can be understood as a derivative related to the underlying "company", with the options that are traded on the stock price to be understood as derivatives on derivatives, so that the financial markets themselves transform into places where about the future of the company is decided. Unlike fundamental analysis, which captures a company's fundamental business, technical analysis generates the business based solely on the trajectories and volatility of its stock price. Especially for tech companies that are not yet manufacturing products, technical analysis is a welcome tool to measure the risks implemented in the business. An important conflict of interest in the 21st.

Under the production regime capital appears as money or commodity, depending on its place in the cycles. The rise of the derivative has an additional dynamic effect on capital, in that, in addition to credit as a means of payment, it uses a contract determined by risk, which in turn refers to the loan. This development was latent in capital from the beginning. The self-exploiting value now appears objectified in the material form of a written derivative contract. Each contract and transaction is to be understood as differential replication within a complex circulatory socio-economic structure, with the social increasingly becoming part of the derivative structure.

[< PREVIOUS](#) [NEXT >](#)

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